MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BAC4674 – INTEGRATED CASE STUDY IN ACCOUNTING

(All sections/Groups)

8 JULY 2023
9.00 A.M. – 12.00 P.M.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of FOUR (4) pages with FIVE (5) questions.
2. Attempt **ALL** questions. The distribution of marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

VONTAGE THE WATCHMAKER

"Watches beyond time" is the tagline used proudly by Vontage watchmaker. Established since 1870, Vontage watches were known to have precise movements and accurately tell the time. The automatic mechanical watch uses a mechanical weight that moves inside the watch whenever the wearer moves his/her wrist. The mechanical weight or the rotor is connected to a hairspring that stores energy. Each watch features more than one hundred moving parts, making it the feats of engineering. It is a poetry in motion.

A mechanical watch can last a lifetime. Much dedication and attention to detail are required in creating a luxury mechanical watch. These timepieces often become family heirlooms. Some of the older productions of Vontage watches have become collectors' items and fetch very high prices among collectors. It is a lucrative investment among many collectors. Each watch is designed to last generations, with proper maintenance and service. It will never need to be replaced during the owner's lifetime.

Mechanical clock movements are used in all Vontage watches, which is viewed as superior to quartz watches among collectors. Vontage hires experienced watchmakers who work in a high-tech manufacturing environment. All mechanical parts of Vontage watches are fabricated in-house, which further guarantees its quality and performance. Overall, the Vontage designs are stylish and timeless – making each watch a timepiece as much as a piece of jewellery that often time attracts conversations.

Vontage most popular watches are the C-graphy, which contributes a large portion of Vontage revenues. This line of watches is not only pleasing to the eyes but also packed with many useful functions. Other than C-graphy, Vontage also has a line of dress watches that are set in gold and real diamonds. Vontage watches are known as luxury goods that are known worldwide for their exceptional quality and trusted brand name. The company prided itself for not only sell watches but also an image that has a class of its own.

The retail prices Vontage watches range from RM9,000 to RM90,000. Vontage watches are sold through independent retailers, carefully selected by the company. Sales targets are set for each retailer and the sales staff are provided with trainings that enhance their product knowledge. Vontage also requires each retailer to hire skilled watchmakers who can provide aftersales services. The company, however, insists that all Vontage watches must be serviced by their own watchmakers every three years. Maintenance service is a necessity for all mechanical watches to maintain their accuracy and Vontage has prided itself as having the far superior workmanship of mechanical watches. Courier services are used to transport watches from the retailers to the Vontage headquarter for maintenance services. The lead time for this maintenance service is three weeks.

Two main developments have impacted Vontage all these years. First, is the invention of quartz watches in 1970s. Quartz watches are battery-powered and is always far less costly to produce, and with high accuracy. Moreover, quartz watches are almost maintenance-free. The technology is used by many watchmakers, from mass brands, fashion brands to luxury brands. Despite the popularity of quartz watches, Vontage did not join the

mainstream and continued to focus on the production of mechanical watches. This move was clearly a good strategy. Vontage's revenues was not affected by the development of quartz watches. Instead, the move has set Vontage in a class of its own, far beyond the generic and fashion brands. Moreover, Vontage watches have become collectors' item, where the value of Vontage watches have increased over time.

The second development is the introduction of smart technology, specifically the smart mobile phones. Consumers no longer rely on watches to tell the time. Smart phones have replaced watches to many consumers, which was quite unexpected among watchmakers. Smart technology has also created smartwatches that do more than telling time. These watches are usually sporty, light, and trendy – which appeal very strongly to the young generation. It has been difficult to create interests towards mechanical watches among the young generation all these while and the introduction of smart watches has made it worse. These developments have become a long-standing issue among the higher management of Vontage.

The company has been very careful when launching new models in order to retain its exclusivity. Currently, the company carries three models of chronograph watches and two models of dress watches. Several variations are available for each model such as gold or stainless-steel bezel, leather strap or metal bracelet, and several colour choices for the dial. Upgrades to the existing models are very subtle and is mainly to incorporate better technologies such as more durable case and crystal. The smart technology has challenged the concepts held dear by the company. The higher management is torn between retaining the existing concepts and adopting the new technology. A few other luxury brand watchmakers have launched at least one model of smartwatches, but Vontage still remain uncertain. The company does not want to be classified as another generic watchmaker, but their market share is declining. The directors believe the decline is attributed to the change of consumers' preferences towards smart technologies.

A director suggested that Vontage offers complementary products to boost its revenue. Many other luxury brands also have additional revenue streams from the sale of complementary products. The director was keen on include signature stationeries and sunglasses under the Vontage brand. Other directors, however, are not keen as Vontage has been known as a watchmaker ever since its inception. Another suggestion that has been forwarded to the board is for Vontage to engage an influencer to promote the brand. Currently, the company's main promotion activity is limited to sponsoring major sporting events – even that seemed to have limited effects due to COVID-19. The company has also gifted several selected pieces to selected ministers and popular actors – with the hope that the brand was sighted when the recipients wear them in public.

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QUESTION 1

Identify the target customers of Vontage watches. Your answer should include the expected demographic characteristics and profile of the target customers.

(5 marks)

QUESTION 2

The directors believe that the declining market share of Vontage is due to the introduction of smart mobile devices that has changed consumer preferences. Do you agree with this opinion? Discuss your opinion by focussing on the factors that affect consumers' preference towards Vontage watches, compared to smartwatches.

(15 marks)

QUESTION 3

Three strategies were mentioned in the case, namely: providing complementary products, engage an influencer to promote the brand and give away selected watches to highly influential people.

(a) Evaluate each of these strategies. Your evaluation could be based on the strengths, weaknesses, and/or challenges of each strategy.

(30 marks)

(b) Which strategy would be the best option for Vontage? Justify your answer by including the methods by which the company could overcome the weaknesses or challenges posed by the strategy.

(15 marks)

QUESTION 4

Should Vontage launch a smartwatch model in addition to the current mechanical models? Identify the factors that Vontage should consider before making this decision, with relevant justifications, and provide a recommendation.

(15 marks)

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QUESTION 5

Recently the company got to know that there are fake copies of Vontage watches in the market. The watches are almost the exact copy of the original Vontage watches. However, the fake ones use the battery powered quartz technology.

(a) Explain whether Vontage should be worried about this.

(10 marks)

(b) Recommend two (2) strategies that Vontage should take in order to handle the issue of fake watches.

(10 marks)

End of Paper